



## EVENT FLASH

## Operational improvement offset by high other expenses

Tasnee reported a net income of SR123mn in 4Q16, 9.7% lower than our estimate of SR137mn. It compares to a net loss of SR687mn in 4Q15 and a profit of SR122mn in 3Q16. We believe higher than expected zakat and financial charges, mitigated the lower than expected opex. We believe zakat and financial charges was SR460mn in 4Q16, higher than our estimate of SR330mn. Gross margin was 25.4% in 4Q16, the highest since 2Q14.

- Tasnee reported a net income of SR123mn in 4Q16, compared to a loss of SR687mn in 4Q15 and a net profit of SR122mn in 3Q16. The results were lower than our estimates of SR137mn but in-line with consensus. Gross profit was in-line with our estimates. However, we believe higher than expected zakat and financial expenses mitigated the lower than expected opex.
- Revenues stood at SR3,950mn in 4Q16, in-line with our estimate. This is an increase of 15.2% YoY and 2.2% QoQ. Based on our calculations, the Petrochemical and Industrial segments operated at 102% and 85%, respectively. Gross margins stood at 25.4% in 4Q16, the highest gross margin since 2Q14.
- Operating profit stood at SR612mn in 4Q16, 19.1% higher than our estimate. We believe this is due to lower than expected opex which stood at SR408mn in 4Q16, lower than estimated SR464mn and SR493mn in 3Q16. This represents 10.3% of sales, lower than 12.7% in 3Q16.
- Despite the operational improvement, net income was 9.7% below our estimates due to higher than expected financial and zakat expenses. Based on our calculations, financial charges and zakat came in at SR460mn in 4Q16 higher than our estimate of SR330mn. Tasnee recently re-financed Cristal SR7bn loan, which we believe was at a higher rate.
- Petrochemical prices increased 2-8% QoQ and 2-12% YoY. TiO<sub>2</sub> prices increased 4.4% to US\$2,322.
- We are currently Neutral on Tasnee with a PT of SR13.5. Despite operational improvement, high debt levels, rising interest rates and delays in operating new facilities are the key risks. The stock is trading at a 2017E P/E of 15.9x broadly in-line with the sector average of 16.2x, which we believe is fair. Following to SIIG's SR1.3bn impairment, we believe Tasnee might be impacted by changing to IFRS due to the ongoing weakness on acrylic facility and the delay in operating the slag facility in Jazan.

## 4Q16 Results Summary

SR mn	4Q16A	3Q16A	% QoQ	4Q15A	% YoY	4Q16E	% Var <sup>^</sup>
Revenues	3,950	3,864	2.2	3,430	15.2	3,966	(0.4)
Gross income	1,004	922	8.9	284	253.3	962	4.4
Gross margin (%)	25.4%	23.9%	1.6	8.3%	17.1	24.3%	1.2
Operating income	612	445	37.6	(742)	NM	514	19.1
Net income	123	122	1.0	(687)	NM	137	(9.7)
EPS (SR)	0.18	0.18	1.0	(1.03)	NM	0.20	(9.7)

Source: Tadawul, NCBC Research, <sup>^</sup> % Var indicates variance from NCBC estimates

## NEUTRAL

Target price **13.5**

Current price (SR) **16.7**

## STOCK DETAILS

52-week range H/L (SR)	18/8
Market cap (\$ mn)	2,972
Shares outstanding (mn)	669
Listed on exchanges	TADAWUL

Price perform (%)	1M	3M	12M
Absolute	(3.4)	22.5	51.3
Rel. to market	0.3	(1.0)	53.8

Avg daily turnover (mn)	SR	US\$
3M	20.5	5.5
12M	23.4	6.2

Reuters code	2060.SE
Bloomberg code	NIC AB
	<a href="http://www.tasnee.com">www.tasnee.com</a>

## VALUATION MULTIPLES

	15A	16A	17E
P/E (x)	NM	43.8	15.9
P/B (x)	1.4	1.4	1.2
EV/EBITDA (x)	31.2	12.0*	11.0
Div Yield (%)	0.0	0.0	0.0

Source: NCBC Research estimates, \*-estimate

## SHARE PRICE PERFORMANCE



Source: Tadawul

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**Corporate website**

[www.ncbc.com](http://www.ncbc.com)

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OVERWEIGHT:	Target price represents an increase in the share price in excess of 15% in the next 12 months
NEUTRAL:	Target price represents a change in the share price between -10% and +15% in the next 12 months
UNDERWEIGHT:	Target price represents a fall in share price exceeding 10% in the next 12 months
PRICE TARGET:	Analysts set share price targets for individual companies based on a 12 month horizon. These share price targets are subject to a range of company specific and market risks. Target prices are based on a methodology chosen by the analyst as the best predictor of the share price over the 12 month horizon

**Other Definitions**

NR: Not Rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or in circumstances when NCB Capital is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

CS: Coverage Suspended. NCBC has suspended coverage of this company

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